January 2006

Dear Professor:

This newsletter has a summary of trends that were prevalent during 2005 and article abstracts for case discussions for the following topics:

2006 predictions for retailers
Passionate and knowledgeable REI employees sell the brand
Cabela’s combines unique stores with a successful catalog business
Steve and Barry’s master cost management and East coast expansion
The typical US mall does have a place in foreign nations and economies
Macy’s, a profitable international department store brand
Dressing rooms directly affect sales and are finally being given the attention they deserve
Creative gift cards increase their value for both customers and stores
Wal-Mart’s testing upscale merchandise on the web
Updated return policies protect store shrinkage and anger the customer

The articles in this and past newsletters are sorted by chapters in Retailing Management, fifth edition. If you are interested in the text book please visit www.mhhe.com/levy04. Simple registration is required to gain access to the newsletters and other instructor materials.

If you would like to see this newsletter and the previous editions, go to http://www.cba.ufl.edu/mkt/crer/research/publications.asp

The Sixth Edition of Retailing Management will be available later this Spring.
ABSTRACTS OF RECENT RETAIL ARTICLES

2006 Predictions for Retailers

Use with chapter 5 “Retail Market Strategy”


Stores has identified 6 trends and has ventured to predict how they will affect retailers in 2006. Companies that don’t recognize these trends may find themselves floundering to keep their heads above water.

As gasoline prices increase, so do household expenditures such as heating. In addition, Americans have charged $800 billion on their credit cards and a new law allows companies to demand a 4% minimum payment each month, which is more than twice what the law allowed last year. All of these expenses deduct from a person’s discretionary spending, which directly affects a retailer’s bottom line.

For those in their 50’s, their mentality is not do-it-yourself, but do-it-for-me. Home Depot and Lowes, have already identified the attitude shift and are introducing home services. For some types of retailers, such as apparel, finding a way to enter the do-it-for-me market may require some creativity. In addition, men and women in their 50s dominate 50% of consumer spending. Apparel retailers such as Talbots and Coldwater Creek have found success in the women over 35 target market. By 2010, it is expected that consumers aged 40 and older will spend trillions more than 18-34 year olds. The spending capacity by the older half of the population can not be ignored, nor can retailers alienate the younger half. This will prove to be a challenge.

Fourth, as suggested by the success of grocery stores such as Whole Foods and Publix’s Sabor, food is increasingly important in consumers’ lives. Healthful produce and manufactured goods is driving many purchases. Giant Food’s newest store employs a full time nutritionist. Once niche markets, such as upscale and Hispanic foods, are now booming. The Hispanic market is expected to reach $1 trillion by 2010.

The middle class has decreased from 51.9% in 1980 to 44.9% in 2003. While more people are wealthy, many more are impoverished. As a result, discount stores and high-end stores are thriving. Middle of the road stores such as JCPenney and Kohl’s have done well in their shrinking middle class market, but they will need to continue to push to stay in the game.

Customer service is no longer a benefit, it is expected. Consumers are armed with more knowledge then ever before and they expect certain levels of customer service at particular price points. Retailers must integrate technology properly and use their customer data they have been collecting for years to create a better and more efficient shopping experience. The six trends and predictions identified above are changing the retail environment and retailers who choose to ignore them will sink in the end.

Discussion Question

Which of the six predictions for 2006 do you think will have the biggest impact on retailers profitability and success? Why?

Open ended answer, must justify
Passionate and Knowledgeable REI Employees Sell the Brand

Use with Chapter 9, “Human Resources Management.”

“REI-Working Out,” Business Week, November 15, 2005

Recreational Equipment Inc., better known as REI, is an outdoor sports outfitter operating 80 stores mainly in the West and Northwest regions of the US. Its also has its name tagged on REI Adventures, an extreme travel agent for expeditions such as a week-long bike tours of Tuscany. Its employees are true outdoor aficionados. Their enthusiasm for outdoor activities and a genuine desire to share their knowledge sells REI's merchandise.

Commissions are not used as a selling incentive because REI believes the internal competition will discourage customer service. REI wants their employees to spend their time on the selling floor interacting with customers and building relationships. These relationships translate into sales. Instead, store-to-store comparisons are used in their employee-bonus program called Excels.

Collaboration and cooperation are important at REI and nearly second nature as all the employees from top management to floor staff are passionate about being outdoors and sharing it with others. Management encourages employees to spend their lunch hour running or biking. REI’s classes allow the employees to interact and spread their knowledge outside the sales floor.

Using their employees’ regional knowledge, REI is testing a program called REI Outdoors that will have employees lead day and weekend trips. REI stores, REI Adventures and REI Outdoors spread their passion for the outdoors to local markets and they prove this by donating a significant portion of their profits to outdoor protection programs. REI is the connector between the participant, their equipment and the experience of the activity.

Discussion Questions

Why is REI a good place to work?

There is collaboration and cooperation among the multi-levels of management. Employees of REI share a common interest in the outdoors and together they are working to protect what they are passionate about. A significant portion of the companies profits are used in outdoor protection efforts. Also, employees are encouraged to continue doing what they love and to talk about it at work with their customers. It's a “Do what you love for a living” scenario.

Do REI’s employees add value to REI’s brand?

Yes, for several reasons. REI’s employees are the face on the selling floor, building trusting relationships. In addition, in programs such as the classes REI offers and REI Outdoors, the service/product is provided by the employees. Without passionate, knowledgeable employees the stores would be just another department store and the classes could be replaced by a book.

Cabela's Combines Unique Stores with a Successful Catalog Business
Cabela’s started out as a catalog company in 1961, but entered the brick and mortar business much later. Most of Cabela’s 15 stores opened since 2000, but all of them have proven its unique business model to be successful. In small town Buda, Texas, equidistant between Austin and San Antonio, Cabela opened its most recent store. The town has a population of 4,000 and was earmarked as an area where many Cabela’s catalog shoppers reside.

The parking lot outside Cabela’s in Buda rivals that of many stadiums. Shuttles carry customers to the front doors where a variety of mounted animals greet them. Customers come to Cabela’s as much for entertainment as they do for the 200,000 outdoor and sporting good product selection. The 185,000 sq. ft. store draws customers with classes in bird calling, shows for campers, jerky tasting events and a 50,000-gallon fish tank.

Most Cabela’s are visible from a major interstate, but 30 minutes from a main city. They choose these locations because towns are more likely to agree to their demands. Since Cabela’s draws such a crowd, about 4 million a year, small towns have seen economic growth when Cabela’s enters as an anchor store and tourist attraction. Other stores, restaurants and even hotels are being built around Cabela’s to support the crowds. Cabela’s usually demands infrastructure improvements, such as street widening and control over its neighbors so that competing chains will not open nearby, not to mention a tax break worth millions.

Some analysts are worried that Cabela’s will start to see the “Been there, done that” syndrome and customers will not drive over a hundred miles to purchase equipment, especially with rising fuel costs. However, the stores that have been open the longest have not seen a decline in customers. Another worry is Cabela stores will cannibalize their catalog sales which still account for more than 50% of its $1.6 billion in annual sales. While catalog sales in the region of a new Cabela’s do decrease 10%, it soon returns to normal within 18 months. Mike Callahan, senior VP for retail operations, recognizes that “we’re in an age of multi-channel shopping.”

Discussion Questions

Describe a typical trade area for a Cabela Store.

A typical trade area would have many Cabela catalog shoppers already, be immediately off a highway and 30 minutes from a major city. The town must be willing to concede to certain demands. Some of them may be control of neighbors, better infrastructure and tax breaks. There must be plenty of space to house both the store and the parking lots.

What impact does the Cabela’s have on the economy of area surrounding the store?

Cabela’s is a draw to 4 million people a year. This high traffic flow will support more businesses, which will pay more taxes. The more taxes that businesses pay in a town, then the more residents will benefit. Jobs will be available through the new store, hotel and restaurant openings, which will attract more permanent residents who will need houses built for them by local development companies. It will also increase traffic, which will cause infrastructure upgrades, but will also cause more air pollution.

Would you pull off an interstate just to shop at Cabela’s? Why?

Open Ended
Steve and Barry's Master Cost Management and East Coast Expansion

Use with chapters 5, 7 and/or 14

Meredith Derby, “Steve and Barry Move into Manhattan; Retailer of $10-or-Less Merchandise Plans Aggressive Expansion on East Coast,” DNR, October 17, 2005.

Steve & Barry’s University Sportswear of Port, Washington has quietly grown to nearly 125 stores throughout 27 Southern and Midwestern states. Dating back to its first store on the University of Pennsylvania’s campus, they traditionally sold college logo clothes. Now it has expanded its offerings to include items such as sweaters, polos and jackets. This spring Steve Shore and Barry Prevor plan to introduce another 1,100 items and a store in the most visited area of New York City. All products sell for under $10.

Taking a page from the Wal-Mart’s book, Shore and Prevor are cost saving gurus. Prevor, a self-branded “tariff engineer” has deciphered the complicated U.S. apparel trade law. By manufacturing the right pieces, using the correct material in the most strategic location, the store saves millions on tariffs and duties by sourcing production to over 25 countries. For example, nylon jackets manufactured in China carry a 28 % duty. However, raingear only has a 4 % duty. Steve & Barry’s apply a water-resistant coating to reclassify the garment as raingear and save themselves several million dollars.

Except for the newly planned New York City store, Steve & Barry’s are located in second and third tier malls with lower rents. The pair is not particular about the square footage of their stores, but the stores do average 60,000 sq. ft. This flexibility combined with the traffic their stores draw to a mall and the disappearance of more traditional anchors, provides them with leverage in rental agreements. In one agreement, they received $35 per sq. ft. for improvements, while only paying $5 per sq. ft. in rent. The landlord made no profit on the 7 year lease.

Steve & Barry’s is a private company, but its estimated markup is 2-20 % compared to the industry average of 54 %. The high volume in their stores allows the duo to operate on a very small margin. The company’s expertise at cost cutting permits them to add embellishments on their clothing, such as double layered sweatshirt hoods, that are typically reserved for higher priced garments in other stores. The industry estimates Steve & Barry’s revenue at $700 million in 2005 and the owners expect both their stores and revenues to keep on growing.

Discussion Questions

Why is Steve & Barry’s so successful?

Steve and Barry have been able to find a niche market with constant demand- logo clothing. Current students, sport fans and alumni can find their college of choice more conveniently and at locations across the country. They have been able to keep costs low while providing, choice, low prices and high quality.

Do you believe they can sell your university’s sweatshirt in their new Manhattan store?

Open ended

The Typical US Mall Does Have a Place in Foreign Nations and Economies
Many critics view malls as a representation of growing consumerism that brings in traffic, mayhem and massive, indistinguishable buildings. Proponents of malls sing praise of their economic and social impact. Both groups recognize that the mall, long typified as an American phenomenon, has spread internationally at a rapid pace from Riyadh, Saudi Arabia to Beijing, China and is showing no indication of slowing its pace. Malls have created a successful international stronghold.

Shopping on a Saturday afternoon is a right and privilege for Americans that passes unnoticed and unappreciated. In Saudi Arabia, women are allowed to shop, but when veils are required in public, how can they expected to buy something they can't see well or try on? The solution: one floor of the three floored Kingdom Center is dedicated exclusively to women. These women use the floor as a social gathering location where they can remove their veil and all the while supporting the local economy.

The Philippines in recent years have seen a real estate boom led by malls. As a result of foreign nationals sending home nearly $7 billion every year, island residents go shopping triggering a market for malls. China as a developing country with a large population has become a prime destination for mall developers. 80 percent of shoppers in China walk to the malls so when a mall goes up in the suburbs, a community begins to sprout up along with it.

Critics worry that the American mall exported to the rest of the world is downplaying local customs and tastes as well as drawing valuable people and money from traditional city centers. As more malls are being built, developers have listened to their critics and are replacing tacky plastic plants with local architecture, art displays and gardens to make malls a choice destination. In 2003, the Kingdom Center in Riyadh accepted an internationally recognized design award. Also, malls are discovering that just because the American concept of a mall is successful, American food stops and stores may not be. In Santiago, Chile, local chains are most popular and in San Salvador, El Salvador the Roman Catholic Church located in the Mall brings in patrons twice a day for mass.

Designing retailing centers to cater to local needs and tastes are bringing about architecturally and esthetically pleasing structures as a social gathering destination. Communities are springing up around more rural locations and others are strategically placed in city centers where urbanites walk. As a result, the once American image of the consumer mall is successfully growing internationally and incorporating regional cultures.

Discussion Questions

Successful malls are more than a place to shop. What are some of the strategies that mall developers are using to make them more successful?

Malls, such as the Kingdom Center, are becoming a social gathering for local women, men and children. It also provides a choice destination for common daily or weekly activities such as church. Gardens, art displays and pleasant surroundings are making malls more pleasant to be in, and not just to use as a quick one stop shop. They are being customized to fit local tastes.

Why are these strategies successful?

Malls are becoming a choice destination because of the various activities and social interaction. As a result they spend money, which starts a cyclical economic advantage. Also, they are not ignoring the needs of individual communities such as food reference, local law (veils) and habit (walking vs. driving).
Macy's, a Profitable International Department Store Brand

Use with Chapter 5 “Retail Market Strategy”


Terry Lundgren, CEO of Federated Department Stores completed the purchase of May Department Stores earlier this year. The strategy behind the buyout is to create an internationally recognized brand. Macy’s, already recognized East to West in the US, is that brand.

Macy’s department stores will take over many regionally popular department stores, such as Marshall Field’s in Chicago. Next September, the recognizable red and white Macy’s sign will be displayed on over 800 stores, from 425 in 2005, in 63 of the 65 largest cities in the US. The stores will benefit from national advertising, but regions will still be in charge of local promotion, advertising and merchandising according to regional tastes. This includes their new store in Beijing.

Lundgren is not worried about the decline of department stores, as some are. QVC, catalog shopping and internet purchases may have troubled some, but Lundgren says $30 billion dollars in combined sales during 2004 proves otherwise. INC, Macy’s private brand is the single fastest growing brand through out all the stores. Lundgren reveals that is “a very key part of this whole merger—our very productive private brand replacing space that was not as productive in those stores [May’s private brand].”

Additionally, they will continue to improve the Macy’s shopping experience. All aisles and displays will allow enough room for carriages to pass by and more frequent deliveries will provide a continuous flow of new merchandise. The fitting rooms will have larger stalls, better lighting and benches with TV’s outside to “distract the distracters”.

When Federated Department Stores bought May Department Stores, May was barely turning a profit. Now through an integration of stores and the national recognition of the Macy’s brand, Federated plans to be more profitable and internationally successful.

Discussion Question

What factors will give Macy’s a sustainable competitive advantage in the future?

It has national recognition and is even beginning to be recognized abroad. It is allowing regions to dictate the style and merchandise of its stores. They have buying economies of scale. They have some of the best locations in the nation. They have a strong private label program that can’t be copied by competition.

Dressing Rooms Directly Affect Sales and are Finally Being Given the Attention They Deserve

Use with Chapter 18, “Store Layout, Design, and Visual Merchandising”


As many females can tell you, the dressing room is their least favorite area of a clothing store. Few think they are perfect the way they are with guards doling out numbered tags, piles of discarded clothing in the stalls and abrasive lighting.
Recently, through studies and good common sense, apparel stores are beginning to see fitting rooms through their customers’ eyes. More importantly, they are learning that the dressing room directly relates to store sales. 60 percent of sales are generated from only 24 to 28 percent of the customers who use fitting rooms. It’s a seemingly simple concept. The more people that go in a dressing room and the longer they spend there assessing options to buy, the more they will purchase.

Macy’s, a Federated Department Store, has begun installing vending machines and televisions for customers who have tag-a-longs such as an antsy husband or rambunctious children. Forth & Towne, a new Gap store for women over 35, have full length dressing room doors which circle a sitting area with chairs and reading material. Coldwater Creek has two large, leather chairs outside its dressing rooms with up to date USA Todays.

A woman shopping with a man spends less time in a store. Women who are uncomfortable in a dressing room may avoid it or rush through the process. Stores that can make dressing rooms fitting to the needs of women will find a positive result in their bottom line.

Discussion Question

Why are apparel retailers paying more attention to fitting rooms?

Fitting rooms are directly related to the sales of a store. The majority of sales come from a minority of shoppers who use the fitting rooms. Factors such as worrying about husbands outside the fitting room, bad lighting, messy floors and no place to rest make a person dislike the experience and therefore skip it or rush it. The more time a person spends in a dressing room, the more they are likely to purchase.

Creative Gift Cards Increase Their Value for Both Customers and Stores

Use with chapter 16 “Retail Communication Mix”


Chances are you have received a gift card as a birthday, Christmas or other holiday present. It probably had some flashy colors, a store logo and maybe a greeting. Gift cards started out as a paper gift certificate and transformed into a plastic card with magnetic strip during the 1990’s. Since then the gift card has seen many other updates and is in a perpetual state of upgrade.

Cross promotion through printed images on the card can personalize a card and promote another item. For example, Wal-Mart has cards that display the logo or picture of a popular toy. This year Blockbuster introduced a $50 card that splits the money between Blockbuster and any Brinker International Restaurant such as South of the Border or Macaroni Grill.

Making the card more attractive and personalized helps combat the common perception that gift cards is not a thoughtful gift. For $.88 at Wal-Mart a person can bring in a picture or have his or her picture taken and transferred to a gift card. Coldwater Creek’s pink cards donates 10% of the value of the card to the Susan G. Koman Breast Cancer Foundation. Many cards now come in a fancy package, some with recordable messages.

Stores like gift cards because it generates two trips, one by the purchaser and another by the redeemer. Each trip often generates sales more then the price of the gift card. In some states, unclaimed gift cards, about 10%
of gift card sales, can be recognized as revenue after several years. In other states, all money collected for unredeemed gift cards must be turned over to the state as abandoned property. Furthermore, since the majority of winter holiday gift cards are redeemed within one month of receiving them, the holiday season lasts an extra month for retailers.

TowerGroup, a unit of MasterCard International, predicts that gift card spending will continue to rise and reach nearly $73 billion by 2008. Part of this growth is spurred by the flexibility to buy gift certificates online. Gift cards make it easy to buy for the hard-to-buy for people, but the packaging and type of gift card chosen can show thought and caring.

Discussion Question

Gift Cards have been around for sometime. Why have they become so popular recently?

New options on the cards to personalize them. Also, they are becoming easier to use either in the store, on the internet or in several different stores. People are busy and gift cards are easy to pick up in the store or order online. Stores like gift cards because it elongates the holiday shopping season and increases the number of visits to the stores, which increases their sales. Also, depending on the state laws retailers may be able to recognized unredeemed gift certificates as revenue. As a result, retailers will push gift cards and make them more appealing.

Wal-Mart's Testing Upscale Merchandise on the Web

Use with chapters 5 “Retail Market Strategy” and 12 “Planning Merchandise Assortments”


Wal-Mart is known for their slogan “Always low prices”. Most often consumers associate this with dish detergent, food items, and bathroom linens. With over 1.3 million workers and $300 billion in yearly revenue, their always low prices are bringing in a hefty sum.

Recently, however, their growth and stock performance has been disappointing. To bring in more affluent shoppers and separate its image from mundane household items, Wal-Mart is offering high ticket items on www.walmart.com. Their 1 ¾ carat diamond ring for just under $10,000 has garnered a lot of media attention and sold well. (Wal-Mart will not disclose how many were sold) Wal-Mart has used their website in the past as a test bed for new products, especially higher priced items. Some don’t believe the web is an appropriate test for in store items as it lacks the sensory experience a shopper will have in the store, but in the mean time Wal-Mart is offering items such as plasma televisions and engagement rings and Wal-Mart discounts.

Discussion Question

Can Wal-Mart successfully sell luxury branded merchandise? Justify your answer.

Yes, they have already shown that they can sell more expensive items on the web, as long as customers think they are getting the Wal-Mart price vs. quality ratio. It still remains to be a question if they can transfer their sales from online to in store. In part, engagement ring shopping is about the experience, but as they already proved, the right price will make up for missing velvet, mahogany and glass cases and over trained sales staff. Despite bad publicity, Wal-Mart is still a recognizable and trustworthy name. If they don’t like the high ticket item that they purchases, then they can return it.
Updated Return Policies Protect Store Shrinkage and Anger the Customer

Use with chapter 11 “Customer Relationship Management” and 19 “Customer Service”

Parija Bhatnagar, “Quick & Easy Gift Returns? Not This Year,” CNN Money, November 15, 2005.

Consumer electronic stores such as Best Buy and Circuit City have been charging a restocking fee for a while now on opened returns. Other stores are now following suit to combat the $30 billion loss to shrinkage and consumer fraud annually. For the most part, consumers are honest, but 3% of the population produces enough trouble through organized fraud that has stores rethinking their return policies.

It is common for merchandise to be stolen from one store and returned to another. Including returned sales tax, the fraudulent customer can pocket up to 108% of the actual price of the item. Many stores won’t accept returns without receipts and only in the original, undamaged, unopened condition. Wal-Mart does accept returns without a receipt, but tracks frequent returns without receipts. If a customer returns more than three items, without a receipt, in 45 days, then that customers’ information in the database is red flagged and a manager is needed to approve the next return. Retailers aren’t required by law to disclose the existence of tracking systems, but several stores do use them, such as Sports Authority and Express.

To gain the trust of customers some believe retailers should voluntarily disclose their tracking computer systems, the same way they are required by law to make public their return policy. As return policies become more stringent, the dishonest few will feel the sting more than the typical consumer. For now, it is the job of the customer to know both the return policy and tracking systems in a store before they buy.

Discussion Questions

What are positive and negative effects of the recent changes in retailers’ return policies?

Positive- Helps reduce shrinkage which can increase profits to stores. Savings on high theft items may be passed along to the consumer.

Negative- If an honest person really doesn’t like an item, or there is a problem with it, he or she may have a difficult time returning an item

Weighing the pros and cons, under what circumstances do you think the changes are a good idea?

Identifying potentially fraudulent customers with a tracking system is great because it can help to decrease shrinkage via discouragement and manual approval by a manager. While some may feel that it should be made known to everyone what type of system a store is running, if a customer isn’t doing anything wrong, they will never show up on the radar.